

# Final Internal Audit Report

## Debt Recovery and Use of Bailiffs

### June 2017

**Distribution:** Executive Director Resources (Final only)  
 Director Customer and Corporate Services  
 Head of Business Support and Customer Contact  
 Strategic Collection Manager

Assurance Level	Recommendations Made	
<b>Substantial Assurance</b>	Priority 1	0
	Priority 2	2
	Priority 3	0

#### Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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**1. Introduction**

- 1.1 The Council has a duty to ensure that income is effectively and efficiently collected, including recovery action as far as possible and economic.
- 1.2 A significant portion of debt at the Council is managed centrally by the Corporate Debt Recovery Team (CDRT). In addition from June 2016, the in-house Croydon Enforcement Agent Service (Bailiff Services) will collect outstanding council tax and business rates liability orders obtained against individuals and companies on behalf of Croydon Council.
- 1.3 The audit is being undertaken as part of the agreed Internal Audit plan for 2016/2017.

**2. Key Issues**

Priority 2 Recommendations
The allocation of debts from the weekly referral reports to the respective Professional Enforcement Officers is a manual process and there are no reviews to detect any errors of omissions that may arise during this process <b>(Rec 1)</b> .
A clear strategy/policy for the allocating debts to the respective bailiffs was not defined and in place <b>(Rec 2)</b> .

A finding relating to the low number of referrals to the Professional Enforcement Team has also been identified and reported in the 2016/17 Accounts Receivable audit and thus is not included in this report.

### 3. Actions and Key Findings/Rationale

#### Control Area 1: Determination of Appropriate Recovery Action

Priority	Recommendation 1	Detailed Finding/Rational		
2	<p>The Referral reports run weekly (Mondays) to identify council tax and NNDR debts referred to the Professional Enforcement Team, should be retained for a defined period of time (three months is advised).</p> <p>Manual allocation of approved referrals should be made by a Professional Enforcement Officer and periodic checks conducted by an independent officer to ensure that all approved referrals have been assigned enforcement officers.</p>	<p>Weekly referral reports are run, which are used by the Professional Enforcement Manager to allocate debts to the respective Professional Enforcement Officers. These are recorded on the Pre-Legal referral log, which is an excel spreadsheet.</p> <p>Discussions with the Professional Enforcement Manager established that the allocation of approved debt to Enforcement Officers is currently a manual process and involves manually updating the Pre-Legal referral logs with cases from the weekly debt referral reports. Audit established that once cases have been allocated to the Pre-Legal referral logs, the weekly referral reports are discarded.</p> <p>Where referral reports are not retained and regularly reconciled to the cases assigned to Professional Enforcement Officers, there is a risk that errors and omission in allocating cases to Enforcement Officers may not be identified and resolved.</p>		
Management Response		Agreed/Disagreed	Responsible Officer	Deadline
This has been actioned.		Agreed	Professional Enforcement Manager	June 2017

<b>Control Area 6: Use of Bailiffs</b>			
<b>Priority</b>	<b>Recommendation 2</b>	<b>Detailed Finding/Rational</b>	
2	A clear strategy for allocating debts to the respective bailiffs should be defined, agreed by senior management and adhered to.	<p>Discussions with the Enforcement Agent Manager established that previously there was a 'championship challenger programme' where work was assigned based on the performance of the bailiffs in the ratio 5:2.5:1.5:0.75:0.25 from the best to the least performer respectively. However, with the introduction of the in house bailiffs in June 2016, this method of assignment is no longer used.</p> <p>The examination of referrals to the respective bailiffs from June to October 2016 identified disproportionality in the way in which debts were assigned to bailiffs.</p> <p>It was explained that the respective bailiff contracts do not prescribe how many debts should be allocated to the various bailiffs and also that one of them is considered to be the best performing bailiff. However, there is no clearly defined policy or allocation strategy in place for the allocation of debts to the respective bailiffs.</p> <p>Where allocation strategy is not clearly defined and adhered to, there is a risk that bailiffs perceived to be poorly performing are not assigned many debts and lack incentive to improve their collection and that the bailiffs perceived to be good performers become complacent.</p>	
<b>Management Response</b>		<b>Agreed/Disagreed</b>	<b>Responsible Officer</b>
<p>The bailiff tender is due for renewal in November 2017 and the allocation policy is defined within the tender specification. And this will be adhered to within the terms of the new contracts. There are monthly performance management meetings which take place with all of the external bailiff companies and performance reporting is shared and discussed at each meeting, this actively manages expectations and good relationships with all of the external agents. Issues affecting performance is discussed, as well as ideas to improve collection rates in an open and transparent manner. We will continue with this approach until the new contracts are procured.</p> <p>In the new model there will be less external agents, this will reduce from 6 to 3 external agents.</p>		Agreed	Enforcement Agent Manager
		<b>Deadline</b>	November 2017

## Audit Terms of Reference

### Debt Recovery and Use of Bailiffs

#### 4. INTRODUCTION

- 4.1 The Council has a duty to ensure that income is effectively and efficiently collected, including recovery action as far as possible and economic.
- 4.2 A significant portion of debt at the Council is managed centrally by the Corporate Debt Recovery Team (CDRT). In addition from June 2016, the in-house Croydon Enforcement Agent Service (Bailiff Services) will collect outstanding council tax and business rates liability orders obtained against individuals and companies on behalf of Croydon Council.
- 4.3 The audit is being undertaken as part of the Internal Audit plan for 2016/2017 as agreed by the Councils General Purposes and Audit Committee.

#### 5. OBJECTIVES AND METHOD

- 5.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls/processes around disabled facility grants.
- 5.2 The audit will for each area included in the scope:
- Document and evaluate the risks and controls for each process;
  - Walkthrough the processes to consider the key controls;
  - Undertake sufficient testing of controls operating, on a representative sample basis; and
  - Reach a conclusion on the effectiveness of the controls operating and report.

#### 6. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements;	0	0	0
Determination of Appropriate Recovery Action	0	1	0
Integrity of Calculation and Assessment Tools;	0	0	0
Review of Enforcement Action;	0	0	0
Records of Decision;	0	0	0
Use of Bailiffs	0	1	0
<b>Total</b>	<b>0</b>	<b>2</b>	<b>0</b>

**DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS**

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

## STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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